

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
BALANCE SHEETS  
AS OF DECEMBER 31,

(Dollars in Millions)

	<u>1991</u>	<u>1990</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash .....	\$ 1.1	\$ ---
Accounts receivable		
Customers and agents, net of allowance		
for uncollectibles of \$54.3 and \$42.4	431.5	442.6
Other .....	21.5	29.4
Material and supplies .....	30.5	27.5
Prepaid expenses .....	5.7	7.0
Deferred income taxes .....	18.6	33.4
Deferred charges .....	<u>117.0</u>	<u>95.4</u>
	<u>625.9</u>	<u>635.3</u>
PLANT, PROPERTY AND EQUIPMENT - at cost		
In service .....	8,565.4	8,293.3
Under construction and other .....	<u>98.7</u>	<u>120.5</u>
	8,664.1	8,413.8
Accumulated depreciation .....	<u>(3,170.0)</u>	<u>(3,057.1)</u>
	<u>5,494.1</u>	<u>5,356.7</u>
DEFERRED CHARGES AND OTHER ASSETS .....	<u>106.7</u>	<u>100.0</u>
TOTAL ASSETS .....	<u>\$6,226.7</u>	<u>\$6,092.0</u>

The accompanying notes are an integral part of these financial statements.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
BALANCE SHEETS  
AS OF DECEMBER 31,

(Dollars in Millions)

	<u>1991</u>	<u>1990</u>
<u>LIABILITIES AND SHAREOWNER'S INVESTMENT</u>		
CURRENT LIABILITIES		
Debt maturing within one year		
Affiliate .....	\$ 153.0	\$ 89.1
Other .....	.8	125.4
Accounts payable		
Parent and affiliates .....	88.7	65.9
Other .....	293.4	346.8
Accrued expenses		
Taxes .....	68.6	42.5
Vacation pay .....	54.3	55.0
Interest .....	36.9	45.3
Other .....	33.7	24.4
Advance billing, customer deposits and other .....	<u>87.6</u>	<u>104.7</u>
	<u>817.0</u>	<u>899.1</u>
LONG-TERM DEBT .....	<u>1,694.1</u>	<u>1,563.6</u>
DEFERRED CREDITS		
Deferred income taxes .....	713.9	999.2
Unamortized investment tax credits ....	171.4	189.5
<del>Employee benefit obligations</del> .....	<del>757.4</del>	<del>45.9</del>
Other .....	<u>10.7</u>	<u>7.1</u>
	<u>1,653.4</u>	<u>1,241.7</u>
CONTINGENCIES		
SHAREOWNER'S INVESTMENT		
Common stock - \$20 par value per share	1,594.7	1,594.7
Authorized shares: 80,210,000		
Outstanding shares: 79,732,681		
Contributed capital .....	.7	.7
Reinvested earnings .....	<u>466.8</u>	<u>792.2</u>
	<u>2,062.2</u>	<u>2,387.6</u>
TOTAL LIABILITIES AND SHAREOWNER'S INVESTMENT .....	<u>\$6,226.7</u>	<u>\$6,092.0</u>

The accompanying notes are an integral part of these financial statements.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

(Dollars in Millions)

	<u>1991</u>	<u>1990</u>	<u>1989</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income (Loss) .....	\$ (24.0)	\$ 377.3	\$ 306.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization .....	500.7	551.0	522.3
Cumulative effect of a change in accounting principle .....	397.3	---	---
Other items, net .....	36.7	31.9	33.0
Changes in certain assets and liabilities:			
Accounts receivable .....	(17.9)	(82.6)	(54.3)
Material and supplies .....	(10.7)	(17.3)	(2.9)
Prepaid expenses .....	1.3	15.1	(1.5)
Deferred charges and other .....	(28.3)	4.7	(1.9)
Accounts payable and accrued expenses .....	(4.3)	(54.3)	72.4
Advance billing, customer deposits and other .....	(17.1)	(28.8)	13.0
Deferred income taxes .....	18.2	41.1	3.8
Unamortized investment tax credits .....	(18.1)	(22.2)	(21.7)
Other liabilities .....	<u>29.1</u>	<u>30.7</u>	<u>(12.2)</u>
Net cash provided by operating activities .....	<u>862.9</u>	<u>846.6</u>	<u>856.8</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to plant, property and equipment ...	(624.1)	(626.4)	(640.6)
Other plant-related changes .....	<u>1.9</u>	<u>(4.0)</u>	<u>(8.0)</u>
Net cash used in investing activities .....	<u>(622.2)</u>	<u>(630.4)</u>	<u>(648.6)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Additions to long-term debt .....	123.9	175.0	--
Repayments of long-term debt and capital lease obligations .....	(126.3)	(.8)	(50.4)
Net decrease in short-term debt .....	--	--	(71.0)
Net increase (decrease) in note payable to affiliate .....	63.9	(115.6)	204.7
Dividends paid .....	<u>(301.1)</u>	<u>(274.8)</u>	<u>(291.5)</u>
Net cash used in financing activities .....	<u>(239.6)</u>	<u>(216.2)</u>	<u>(208.2)</u>
INCREASE IN CASH .....	1.1	--	--
CASH AT BEGINNING OF YEAR .....	<u>--</u>	<u>--</u>	<u>--</u>
CASH AT END OF YEAR .....	<u>\$ 1.1</u>	<u>\$ --</u>	<u>\$ --</u>

The accompanying notes are an integral part of these financial statements.

**THE BELL TELEPHONE COMPANY OF PENNSYLVANIA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The Bell Telephone Company of Pennsylvania (the Company), a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic), maintains its accounts in accordance with the Uniform System of Accounts (USOA) prescribed by the Federal Communications Commission (FCC) and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic impacts of regulation and the ratemaking process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Financial Statements where appropriate.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Material and Supplies

New and reusable materials are carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Plant and Depreciation

The Company's provision for depreciation is based principally on the remaining life method of depreciation and straight-line composite rates. This method provides for the recovery of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining service lives authorized by federal and state regulatory authorities. Depreciation expense also includes amortization of certain classes of telephone plant and certain identified depreciation reserve deficiencies over periods authorized by regulatory authorities.

When depreciable plant is replaced or retired, the amounts at which such plant has been carried in plant, property and equipment accounts are removed from the respective accounts and charged to accumulated depreciation, and any gains or losses on disposition are amortized over the remaining service lives of the remaining net investment in telephone plant.

Maintenance and Repairs

The cost of maintenance and repairs of plant, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Funds Used During Construction

Regulatory authorities allow the Company to record an allowance for funds used during construction, which includes both interest and equity return components, as a cost of plant and as an item of other income. Such income is not recovered in cash currently but will be recoverable over the service life of the plant through higher depreciation expense recognized for regulatory purposes.

Employee Retirement Benefits

Pension Plans

Substantially all employees of the Company are covered under noncontributory multiemployer retirement plans sponsored by Bell Atlantic and its subsidiaries, including the Company. Amounts contributed to the Company's pension plans are actuarially determined, under the aggregate cost method, and are subject to applicable federal income tax regulations.

Postretirement Benefits Other Than Pensions

Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

The Company makes contributions to a retiree health care trust for associate retirees. Contributions to the trust are determined primarily under the aggregate cost actuarial method and are limited to amounts permitted by Internal Revenue Service (IRS) rules for determining deductible contributions.

The Company accrues for an amount for life insurance benefits that is determined using the aggregate cost actuarial method.

Income Taxes

Bell Atlantic and its domestic subsidiaries, including the Company, file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each subsidiary's contribution to consolidated taxable income and tax credits.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (CONTINUED)

Deferred income taxes are generally provided to reflect the effect of timing differences on the recognition of revenue and expense for financial and income tax reporting purposes. The Company does not fully provide deferred income taxes on those timing differences where regulators permit only income taxes actually paid to be recognized currently as a cost of service.

The Tax Reform Act of 1986 repealed the investment tax credit (ITC) as of January 1, 1986, subject to certain transitional rules. Realized ITCs were deferred and are amortized to income over the estimated service lives of the related assets.

Reclassifications

Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

2. DEBTLong-Term

Long-term debt consists principally of debentures issued by the Company. Interest rates and maturities of the amounts outstanding at December 31 are as follows:

	<u>1991</u>	<u>1990</u>
(Dollars in Millions)		
Forty year 3 1/4%, due 1996 .....	\$ 35.0	\$ 35.0
Ten year and three month 9.00%, due 1998 .....	----	125.0
Forty year 4 3/4%, due 2001 .....	50.0	50.0
Forty year 4 3/8%, due 2003 .....	50.0	50.0
Thirty-six year 8 5/8%, due 2006 .....	100.0	100.0
Forty year 6 3/4%, due 2008 .....	100.0	100.0
Forty year 8.00%, due 2009 .....	100.0	100.0
Forty year 7 1/8%, due 2012 .....	75.0	75.0
Forty year 7 1/2%, due 2013 .....	125.0	125.0
Forty year 9 5/8%, due 2014 .....	146.0	146.0
Forty year 8 3/4%, due 2015 .....	100.0	100.0
Forty year 8 1/8%, due 2017 .....	100.0	100.0
Forty year 9 1/4%, due 2019 .....	150.0	150.0
Forty year 8 3/4%, due 2026 .....	275.0	275.0
Forty year 8.35%, due 2030 .....	175.0	175.0
Forty year 8 3/4%, due 2031 .....	<u>125.0</u>	<u>----</u>
	1,706.0	1,706.0
Capital lease obligations, average interest rate 9.5% and 9.6% .....	19.8	14.3
Unamortized discount and premium, net .....	<u>(30.9)</u>	<u>(31.3)</u>
	1,694.9	1,689.0
Less maturing within one year .....	<u>.8</u>	<u>125.4</u>
Total .....	<u>\$1,694.1</u>	<u>\$1,563.6</u>

Debentures outstanding at December 31, 1991 include approximately \$1,406.0 million, which are callable by the Company. The call prices of these debentures range from 107.5% to 100.0% of face value depending on the remaining life to maturity of the issue.

On January 15, 1991, the Company redeemed its entire \$125.0 million of 9.00% debentures, which were due in 1998, at a redemption price of 100.0% of their principal amount, plus accrued interest.

On August 15, 1991, the Company sold \$125.0 million of 40 year 8 3/4% debentures through a public offering. The debentures are not redeemable prior to maturity. The net proceeds from the sale were used to reduce short-term debt and for construction, expansion and improvement of the Company's plant and facilities.

As of December 31, 1991, the Company has an outstanding shelf registration which was filed with the Securities and Exchange Commission (SEC) on November 1, 1991 for the issuance of up to \$300.0 million of debt securities.

2. DEBT (CONTINUED)Maturing Within One Year

Debt maturing within one year\* consists of the following at December 31:

(Dollars in Millions)	1991	1990	1989	Weighted Average Interest Rates*		
				1991	1990	1989
Note payable - affiliate .....	\$153.0	\$ 89.1	\$204.7	4.9%	8.2%	9.5%
Long-term debt maturing within one year .....	---	125.0	---	===	===	===
Capital lease obligations .....	.8	.4	.3			
Total .....	<u>\$153.8</u>	<u>\$214.5</u>	<u>\$205.0</u>			
Average amounts of notes payable outstanding during the year* .....	<u>\$233.2</u>	<u>\$228.5</u>	<u>\$118.8</u>	<u>6.2%</u>	<u>8.3%</u>	<u>9.5%</u>
Maximum amounts of notes payable at any month-end during the year .....	<u>\$383.8</u>	<u>\$345.4</u>	<u>\$217.0</u>			

\* Amounts represent average daily face amounts of notes payable. Weighted average interest rates are computed by dividing such amounts into the aggregate related interest expense.

At December 31, 1991, the Company had an unused line of credit balance of \$245.6 million with an affiliate, Bell Atlantic Network Funding Corporation (BANFC) (see Note 11 of Notes to Financial Statements).

3. ACCOUNTING FOR RESTRUCTURING AND OTHER CHARGES

In 1991, Bell Atlantic and the Company offered a retirement incentive program to eligible management employees electing early retirement. Approximately 560 managers retired from the Company under this program. In addition, the Company is restructuring and consolidating various functions of the business in an effort to further increase the efficiency of its operations. As a result, income before the cumulative effect of the change in accounting principle for 1991 was reduced by \$13.2 million for special termination benefits and related restructure costs. These costs are primarily included as other operating expenses in the Statements of Income.

In 1989, net income was reduced by \$28.2 million as a result of costs associated with special severance and enhanced early retirement programs for management employees, and the consolidation of certain Company facilities. These costs are included as other operating expenses in the Statements of Income.

As a result of labor negotiations completed in 1989, Bell Atlantic established a retiree health care trust for associate employees. In connection with the establishment of the trust, the Company changed its method of accounting for postretirement health care benefits for these employees from a pay-as-you-go basis to an actuarially determined accrual basis, effective January 1, 1989. This change in accounting reduced net income for 1989 by \$19.3 million.



#### 4. LEASES

The Company has entered into both capital and operating leases for facilities and equipment used in the Company's operations. The amount of capital leases entered into in 1991 and 1990 were \$6.4 million and \$.3 million, respectively.

Total rent expense amounted to \$109.0 million in 1991, \$107.8 million in 1990 and \$103.0 million in 1989.

At December 31, 1991, the aggregate minimum rental commitments under noncancelable leases for the periods shown were as follows:

<u>Years</u>	(Dollars in Millions)	
	<u>Capital Leases</u>	<u>Operating Leases</u>
1992 .....	\$ 2.7	\$ 21.0
1993 .....	2.7	19.8
1994 .....	2.7	18.1
1995 .....	2.7	15.0
1996 .....	2.6	12.6
Thereafter .....	<u>28.8</u>	<u>37.7</u>
Total .....	42.2	\$124.2
		=====
Less imputed interest and executory costs .....	<u>22.4</u>	
Present value of net minimum lease payments ...	19.8	
Less current installments ..	<u>.8</u>	
Long-term obligation at December 31, 1991 .....	\$19.0	
	=====	

**5. INCOME TAXES**

The components of operating income tax expense are as follows:

(Dollars in Millions)	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Federal:			
Current .....	\$141.3	\$152.9	\$111.3
Deferred, net .....	29.8	30.9	20.9
Investment tax credits .....	<u>(17.5)</u>	<u>(22.2)</u>	<u>(21.7)</u>
	<u>153.6</u>	<u>161.6</u>	<u>110.5</u>
State:			
Current .....	60.2	41.8	30.0
Deferred, net .....	<u>(15.3)</u>	<u>9.2</u>	<u>(16.9)</u>
	<u>44.9</u>	<u>51.0</u>	<u>13.1</u>
Total .....	<u>\$198.5</u>	<u>\$212.6</u>	<u>\$123.6</u>

The components of deferred income tax expense (benefit) are as follows:

(Dollars in Millions)	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Accelerated depreciation.....	\$ 18.1	\$ 32.9	\$ 36.0
Interstate earnings adjustments.....	---	17.0	(2.5)
Employee benefits.....	(8.3)	(12.0)	(6.1)
Direct write-off of accounts receivable....	---	(2.1)	(2.3)
Other, net.....	<u>4.7</u>	<u>4.3</u>	<u>(21.1)</u>
Total.....	<u>\$ 14.5</u>	<u>\$ 40.1</u>	<u>\$ 4.0</u>

Income tax benefits relating to non-operating income and expense included in other income (expense), miscellaneous-net were \$2.7 million, \$2.7 million and \$1.9 million in 1991, 1990 and 1989, respectively. The deferred tax benefit relating to the cumulative effect of a change in accounting principle was \$288.7 million in 1991.

The cumulative net amount of income tax timing differences for which deferred federal taxes have not been provided pursuant to the ratemaking process was approximately \$78.0 million and \$109.0 million at December 31, 1991 and 1990, respectively. These timing differences relate principally to allowance for funds used during construction and certain taxes and payroll-related construction costs which were capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation. At December 31, 1991 and 1990, deferred state taxes have not been provided on additional amounts of approximately \$1,959.0 million and \$1,922.0 million, respectively, of income tax timing differences, principally related to accelerated tax depreciation.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109) in February 1992. The Company will be required to adopt Statement No. 109 by 1993. Statement No. 109 will require the calculation of deferred taxes using the liability method. Under the liability method, deferred tax balances must be adjusted to reflect enacted changes in income tax rates and deferred taxes must be provided on all book/tax basis differences.

5. INCOME TAXES (CONTINUED)

Presently, deferred taxes are recorded at income tax rates that were in effect at the time the related timing difference arose. In addition, regulated companies only record deferred taxes on timing differences which regulators recognize in the ratemaking process. Since regulators have not changed the manner in which these tax effects are treated for ratemaking purposes, when Statement No. 109 is adopted, the income effects of the required adjustments to deferred tax balances will be recorded on the balance sheet as regulatory assets or liabilities in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). Absent changes in the regulatory treatment of deferred taxes, there will be no material impact on net income upon adoption of Statement No. 109.

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before income taxes and the cumulative effect of a change in accounting principle. The difference is attributable to the following factors:

	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Statutory federal income tax rate .....	34.0%	34.0%	34.0%
Investment tax credits .....	(3.1)	(3.8)	(5.0)
State income taxes, net of federal income tax benefits .....	5.1	5.7	1.9
Benefit of rate differential applied to reversing timing differences .....	(3.1)	(3.5)	(5.4)
Reversal of previously capitalized taxes and payroll-related construction costs ....	1.2	2.0	2.5
Other, net .....	<u>.3</u>	<u>1.4</u>	<u>.4</u>
Effective income tax rate before cumulative effect of a change in accounting principle	<u>34.4%</u>	<u>35.8%</u>	<u>28.4%</u>

Prior to 1984, the Company was included in AT&T's consolidated federal income tax returns. These returns have been examined by the IRS and all issues, including the summary assessment discussed below, have been settled.

During 1987, the IRS made a summary assessment requiring Bell Atlantic's telephone subsidiaries to pay a total of approximately \$65 million in tax and interest related to certain contested issues for the years 1979 and 1980. This payment (\$21.9 million of which was the Company's share) has been recorded as a current deferred charge. In January 1992, the Company was officially notified that the IRS has decided the issues as proposed by Bell Atlantic, and a refund of the summary assessment is expected in 1992.

## 6. EMPLOYEE RETIREMENT BENEFITS

### Pension Plans

Substantially all of the Company's management and associate employees are covered under noncontributory multiemployer retirement plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The pension benefit formula used in the determination of pension cost is based on a flat dollar amount per year of service according to job classification under the associate employees' plan and a stated percentage of adjusted career average income under the plan for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, U. S. Government and corporate debt securities, and real estate.

Aggregate pension costs for the plans are as follows:

	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
(Dollars in Millions)			
Current year cost.....	\$29.0	\$28.3	\$34.4
	====	====	====
Percentage of salaries and wages...	4.3%	4.3%	4.6%
	====	====	====

As previously discussed, during 1991, the Company offered a retirement incentive program to eligible management employees. The increase in pension cost from 1990 to 1991 is primarily due to the special termination benefits of approximately \$1.7 million attributable to employees retiring in 1991 under this program.

The decrease in pension cost from 1989 to 1990 was primarily due to the adjustment of actuarial assumptions, offset partially by plan amendments.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87) requires a comparison of the actuarial present value of projected benefit obligations with the fair value of plan assets, the disclosure of the components of net periodic pension costs and a reconciliation of the funded status of the plans with amounts recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the projected benefit obligation was 7.75% at December 31, 1991 and 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets was 7.5% for 1991, 1990 and 1989.

In the past, the Company has entered into labor negotiations with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement No. 87.

6. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Postretirement Benefits Other Than Pensions

Effective January 1, 1991, the Company adopted Statement No. 106. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation) in the amount of \$397.3 million, net of a deferred tax benefit of \$288.7 million. On December 26, 1991, the FCC released an order permitting adoption of Statement No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to Statement No. 71, a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds for postretirement health benefits for associate employees and postretirement life insurance benefits for associate and management employees. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over the participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

Statement No. 106 requires a comparison of the actuarial present value of the accumulated postretirement benefit obligation with the fair value of plan assets, the disclosure of the components of net periodic benefit cost and a reconciliation of the funded status of the plans with amounts recorded on the balance sheet. Such disclosures are not presented by the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

6. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% at December 31, 1991 and 8.0% at January 1, 1991. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991. The expected long-term rate of return on plan assets was 7.50% for 1991. The medical cost trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%.

Certain other postretirement benefits other than pensions have been included in labor negotiations described above, and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its management employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

In 1991, the cost of postretirement health and life insurance benefits were \$59.4 million.

During 1990 and 1989, the cost of postretirement health care benefits was \$52.0 million and \$65.3 million, respectively. In addition, the Company recognized postretirement life insurance benefit costs for 1990 and 1989 in the amount of \$.8 million and \$2.6 million, respectively.

# 7. SUPPLEMENTAL CASH FLOW AND ADDITIONAL FINANCIAL INFORMATION

(Dollars in Millions)	<u>1991</u>	<u>1990</u>	<u>1989</u>
Supplemental cash flow information:			
Interest paid .....	\$153.1	\$143.8	\$137.2
Income taxes paid .....	\$188.2	\$168.6	\$162.0
Additional Financial Information:			
Depreciation as a percentage of average depreciable plant .....	6.0%	6.8%	6.8%
Other operating taxes:			
Gross receipts .....	\$ 81.0	\$ 74.9	\$ 70.1
Property .....	25.9	17.6	17.9
Capital stock .....	36.7	25.2	24.7
Other .....	<u>1.7</u>	<u>.9</u>	<u>2.9</u>
Total .....	\$145.3	\$118.6	\$115.6
Interest expense:			
Long-term debt .....	\$134.7	\$127.0	\$126.8
Note payable to affiliate .....	14.3	18.9	10.3
Other notes payable .....	--	.8	1.0
Other .....	<u>2.1</u>	<u>--</u>	<u>7.2</u>
Total .....	\$151.1	\$146.7	\$145.3

For the years ended December 31, 1991, 1990 and 1989, revenues generated from services provided to AT&T, principally network access, billing and collection and rental of network facilities, comprised approximately 13%, 14% and 15%, respectively, of total operating revenues.

The Company provides certain billing and collection services to interexchange carriers (IXCs) and others. In connection with providing these services, the Company enters into contracts under which the Company purchases the related customer accounts receivable from IXCs and others. AT&T is the largest customer of the Company's billing and collection services. At December 31, 1991 and 1990, accounts receivable includes \$67.4 million and \$62.7 million (net of allowances for uncollectibles) of receivables purchased from AT&T. Accounts payable includes corresponding amounts owed to AT&T for such receivables.

Financial instruments, that potentially subject the Company to concentrations of credit risk, consist of trade receivables with AT&T, as noted above. Credit risk with respect to other trade receivables is limited due to the large number of customers included in the Company's customer base.

8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollars in Millions)		Income Before Cumulative Effect of a Change in Accounting Principle			Net Income (Loss)
<u>Quarter</u>	<u>* Total Operating Revenues</u>	<u>Net Operating Revenues</u>			
<u>1991</u>					
1st .....	\$ 727.9	\$179.9	\$ 87.4		\$ (309.9)
2nd .....	754.1	190.1	102.2		102.2
3rd .....	769.3	179.0	81.3		81.3
4th .....	<u>786.2</u>	<u>174.9</u>	<u>102.4</u>		<u>102.4</u>
Total .....	<u>\$3,037.5</u>	<u>\$723.9</u>	<u>\$373.3</u>		<u>\$ (24.0)</u>
<u>1990</u>					
1st .....	\$ 741.2	\$191.7	\$ 99.8		\$ 99.8
2nd .....	755.5	199.5	102.9		102.9
3rd .....	746.7	182.0	92.0		92.0
4th .....	<u>767.8</u>	<u>164.0</u>	<u>82.6</u>		<u>82.6</u>
Total .....	<u>\$3,011.2</u>	<u>\$737.2</u>	<u>\$377.3</u>		<u>\$ 377.3</u>

Net income in the third and fourth quarter of 1991 was reduced approximately \$13.2 million for estimated costs associated with special termination benefits related to the retirement incentive program and restructure initiatives.

Results of operations for the first three quarters of 1991 have been restated for the effect of the adoption of Statement No. 106 effective January 1, 1991. As a result of the restatement, net operating revenues decreased \$3.1 million and income before cumulative effect of a change in accounting principle decreased \$1.8 million for each of the quarters ended March 31, June 30, and September 30, 1991. In addition, the Company recognized the transition obligation of \$397.3 million in the quarter ended March 31, 1991.

9. CONTINGENCIES

The Company is a party to antitrust actions and various other claims, legal actions and complaints arising in the ordinary course of business.

In the opinion of management, any monetary liability or financial impact to which the Company might be subject after final adjudication or settlement of these matters would not be material to the Company's financial position.



**10. REGULATORY MATTERS**

On August 4, 1991, the Commonwealth of Pennsylvania enacted legislation that included new taxes and increased tax rates on a variety of taxes paid by the Company including the Corporate Net Income tax, the Gross Receipts tax, the Capital Stock tax, the Public Utility Realty tax and several others. Some of the rates were changed retroactive to January 1, 1991. This new tax legislation increased taxes \$36.3 million during 1991. The PUC allows the Company to recover a significant portion of the retroactive and ongoing increased taxes in the form of a surcharge applied to customer bills. The surcharge revenues totalled \$31.1 million during 1991.

**11. TRANSACTIONS WITH AFFILIATES**

The Company has contractual arrangements with an affiliated company, Bell Atlantic Network Services, Inc. (NSI), for the provision of various centralized corporate, administrative, planning, financial, and other services. These arrangements serve to fulfill the common needs of Bell Atlantic's operating telephone companies on a centralized basis rather than duplicate efforts in each company. In connection with these services, the Company recognized approximately \$502.9 million, \$438.2 million and \$353.3 million in operating costs for the years ended December 31, 1991, 1990 and 1989, respectively. These costs increased primarily as a result of the organizational restructuring of Bell Atlantic, which began January 1, 1988. Included in these costs were \$44.6 million in 1991, \$39.3 million in 1990 and \$40.1 million in 1989 billed to NSI by Bell Communications Research, Inc., another affiliated company owned jointly by the seven regional holding companies, and allocated to the Company. In 1991, these charges included \$12.4 million associated with NSI's adoption of Statement No. 106. In addition, \$125.7 million representing the Company's proportionate share of NSI's accrued transition obligation under Statement No. 106.

The Company has a contractual agreement with BANFC, another affiliated company, for the provision of short-term financing and cash management services. BANFC issues commercial paper and secures bank loans to fund the working capital requirements of the operating telephone companies and NSI, and invests funds on their behalf. In connection with this arrangement, the Company recognized \$14.3 million and \$18.9 million in interest expense in 1991 and 1990, respectively.

Prior to 1990, the elected officers of the Company also were elected officers of The Diamond State Telephone Company (Diamond State), another wholly-owned subsidiary of Bell Atlantic. Employees of the Company performed certain operations for Diamond State, including engineering, accounting and directory work. Arrangements existed between the Company and Diamond State under which the Company paid the salaries and expenses of joint officers, their staffs and employees who performed work for Diamond State, and was reimbursed by Diamond State for the portion of the salaries and expenses attributable to it.

The Company earned \$59.5 million in rent revenue from and incurred \$13.0 million in rent expense to affiliated companies as a result of various intercompany billing arrangements in 1991. These amounts were \$34.7 million and \$6.6 million, respectively, in 1990, and \$23.5 million and \$2.7 million, respectively, in 1989.

On January 30, 1992, the Company declared a dividend in the amount of \$84.0 million payable to Bell Atlantic on January 31, 1992.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT  
FOR THE YEAR ENDED DECEMBER 31, 1991  
(Dollars in Millions)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost Note (a)	Retirements Note (b)	Other Changes	Balance at End of Period
Land .....	\$ 36.2	\$ 0.7	\$ --	\$ --	\$ 36.9
Buildings .....	623.1	34.1	7.5	--	649.7
Central Office Equipment .....	2,982.0	267.8	204.7	--	3,045.1
Telephone Instruments and Related Equipment ..	138.4	19.1	35.8	--	181.7
Pole Lines .....	231.0	14.0	3.5	--	241.5
Cable and Wiring .....	3,019.1	164.6	57.3	--	3,126.4
Conduit .....	555.9	37.6	2.6	--	590.9
Office Equipment and Furniture .....	532.9	81.0	60.3	--	553.6
Vehicles and Other Work Equipment .....	134.9	28.7	12.4	--	151.2
Other .....	39.8	12.2	3.6	--	48.4
<b>Total In Service Note (c) .....</b>	<b>8,293.3</b>	<b>659.8</b>	<b>387.7</b>	<b>--</b>	<b>8,565.4</b>
Plant Under Construction .....	119.4	(22.4)	--	--	97.0
Other .....	1.1	0.6	--	--	1.7
<b>Total Plant, Property and Equipment .....</b>	<b>\$ 8,413.8</b> =====	<b>\$ 638.0</b> =====	<b>\$ 387.7</b> =====	<b>\$ --</b> =====	<b>\$ 8,664.1</b> =====

The notes on page F-25 are an integral part of this Schedule.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT  
FOR THE YEAR ENDED DECEMBER 31, 1990  
(Dollars in Millions)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost Note (a)	Retirements Note (b)	Other Changes	Balance at End of Period
Land .....	\$ 35.8	\$ 0.4	\$ --	\$ --	\$ 36.2
Buildings .....	596.1	31.7	4.7	--	623.1
Central Office Equipment .....	2,872.3	316.5	206.8	--	2,982.0
Telephone Instruments and Related Equipment ..	120.7	21.8	4.1	--	138.4
Pole Lines .....	221.5	13.1	3.6	--	231.0
Cable and Wiring .....	2,902.6	161.7	45.2	--	3,019.1
Conduit .....	520.1	37.8	2.0	--	555.9
Office Equipment and Furniture .....	520.3	82.9	70.3	--	532.9
Vehicles and Other Work Equipment .....	118.6	24.9	8.6	--	134.9
Other .....	34.7	6.2	1.1	--	39.8
<b>Total In Service Note (c) .....</b>	<b>7,942.7</b>	<b>697.0</b>	<b>346.4</b>	<b>--</b>	<b>8,293.3</b>
Plant Under Construction .....	173.9	(54.4)	0.1	--	119.4
Other .....	1.0	0.1	--	--	1.1
<b>Total Plant, Property and Equipment .....</b>	<b>\$ 8,117.6</b> *****	<b>\$ 642.7</b> *****	<b>\$ 346.5</b> *****	<b>\$ --</b> *****	<b>\$ 8,413.8</b> *****

The notes on page F-25 are an integral part of this Schedule.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT  
FOR THE YEAR ENDED DECEMBER 31, 1989  
(Dollars in Millions)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost Note (a)	Retirements Note (b)	Other Changes	Balance at End of Period
Land .....	\$ 35.1	\$ 0.7	\$ --	\$ --	\$ 35.8
Buildings .....	570.9	27.1	1.9	--	596.1
Central Office Equipment .....	2,727.6	285.8	143.9	2.8	2,872.3
Telephone Instruments and Related Equipment ..	109.8	19.9	6.2	(2.8)	120.7
Pole Lines .....	212.4	12.2	3.1	--	221.5
Cable and Wiring .....	2,777.4	158.3	33.1	--	2,902.6
Conduit .....	479.3	42.7	1.9	--	520.1
Office Equipment and Furniture .....	488.1	71.5	39.3	--	520.3
Vehicles and Other Work Equipment .....	110.4	8.5	0.3	--	118.6
Other .....	36.5	(1.3)	0.5	--	34.7
<b>Total In Service Note (c) .....</b>	<b>7,547.5</b>	<b>625.4</b>	<b>230.2</b>	<b>--</b>	<b>7,942.7</b>
Plant Under Construction .....	150.3	23.7	0.1	--	173.9
Other .....	1.4	--	0.4	--	1.0
<b>Total Plant, Property and Equipment .....</b>	<b>\$ 7,699.2</b> =====	<b>\$ 649.1</b> =====	<b>\$ 230.7</b> =====	<b>\$ --</b> =====	<b>\$ 8,117.6</b> =====

The notes on page F-25 are an integral part of this Schedule.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
NOTES TO SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

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- (a) These additions include (1) the original cost (estimated if not specifically determinable) of reused material, which is concurrently credited to material and supplies, and (2) allowance for funds used during construction. Transfers between Plant in Service, Plant Under Construction and Other are also included in Column C.
  - (b) Items of plant, property and equipment are deducted from the property accounts when retired or sold, at the amounts at which they are included therein, estimated if not specifically determinable.
  - (c) The Company's provision for depreciation is based on the remaining life method and straight-line composite rates prescribed by regulatory authorities. The remaining life method provides for the full recovery of the remaining net investment in plant, property and equipment. In 1989, the Company implemented changes in depreciation rates approved by the FCC and the PUC. These changes reflect reductions in estimated service lives of the Company's plant, property and equipment in service. This ruling will allow a more rapid recovery of the Company's investment in plant, property and equipment through closer alignment with current estimates of its remaining economic useful life. For the years 1991, 1990 and 1989.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
SCHEDULE VI - ACCUMULATED DEPRECIATION  
FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989  
(Dollars in Millions)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Expenses	Retirements	Other Changes Note (a)	Balance at End of Period
Year 1991 .....	\$ 3,057.1 *****	\$ 500.7 *****	\$ 389.9 *****	\$ 2.1 *****	\$ 3,170.0 *****
Year 1990 .....	\$ 2,852.7 *****	\$ 551.0 *****	\$ 346.2 *****	\$ (0.4) *****	\$ 3,057.1 *****
Year 1989 .....	\$ 2,562.3 *****	\$ 522.3 *****	\$ 230.9 *****	\$ (1.0) *****	\$ 2,852.7 *****

(a) Includes any gains or losses on disposition of plant, property and equipment. These gains and losses are amortized to depreciation expense over the remaining service lives of remaining net investment in plant, property and equipment.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 and 1989  
(Dollars in Millions)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	-----Additions-----		Deductions Note (b)	Balance at End of Period
		Charged to Expenses	Charged to Other Accounts Note (a)		
Allowance for Uncollectible Accounts: -----					
Year 1991 .....	\$42.4 =====	\$36.9 =====	\$57.1 =====	\$82.1 =====	\$54.3 =====
Year 1990 .....	\$46.6 =====	\$33.7 =====	\$26.5 =====	\$64.4 =====	\$42.4 =====
Year 1989 .....	\$41.2 =====	\$35.9 =====	\$22.4 =====	\$52.9 =====	\$46.6 =====

(a) (i) Amounts previously written off which were credited directly to this account when recovered; and (ii) accruals charged to accounts payable for anticipated uncollectible charges on purchases of accounts receivable from others which were billed by the Company.

(b) Amounts written off as uncollectible.

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA  
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 and 1989  
(Dollars in Millions)

Column A	Column B
Item	Charged to Costs and Expenses
Year 1991 -----	
Maintenance and repairs .....	\$453.6 *****
Year 1990 -----	
Maintenance and repairs .....	\$459.0 *****
Advertising costs .....	\$34.1 *****
Year 1989 -----	
Maintenance and repairs .....	\$438.2 *****
Advertising costs .....	\$30.1 *****



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1991

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from to

Commission file Number 1-7757

THE DIAMOND STATE TELEPHONE COMPANY

A Delaware  
Corporation

I.R.S. Employer Identification  
No. 23-0523775

911 Tatnall Street, Wilmington, Delaware 19801

Telephone Number 302 427-7750

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Forty Year 7% Debentures, due December 1, 2008

Name of exchange

registered

New York Stock  
Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELL ATLANTIC CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No